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RUEHC/DEPT OF LABOR WASHINGTON DC
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UNCLAS SECTION 01 OF 04 PODGORICA 000033

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TAGS: [ECON](#) [EINDOTRD](#) [EINV](#) [KPAO](#) [PGOV](#) [MW](#)
SUBJECT: MONTENEGRO: ECONOMIC DEVELOPMENTS: JANUARY 2007

REF: A. A) 2006 BELGRADE 1001

[1](#)B. B) 2005 BELGRADE 2227

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MACROECONOMICS

GOVERNMENT REVENUES RISE IN 2006, DRIVEN BY VAT

11. THE MINISTRY OF FINANCE ANNOUNCED THAT CENTRAL GOVERNMENT EXPENDITURES WERE EUROS 582.3 MILLION, YIELDING A SURPLUS OF EUROS 34.6 MILLION. A SURPLUS OF ONE MILLION EUROS WAS PLANNED. RECEIPTS WERE 15 PERCENT HIGHER THAN PROJECTED, DRIVEN BY VAT RECEIPTS WHICH WERE 36 PERCENT HIGHER THAN IN 2005, AND 21 PERCENT HIGHER THAN PLANNED FOR 2006 (VAT ACCOUNTS FOR 33 OF ALL REVENUE).

MONTENEGRO JOINS IMF, WORLD BANK

12. MONTENEGRO JOINED THE INTERNATIONAL MONETARY FUND (IMF) AND WORLD BANK ON JANUARY 18.

WTO TO MEET ON MONTENEGRO'S APPLICATION

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13. THE THIRD SITTING OF THE WORLD TRADE ORGANIZATION'S (WTO) WORKING GROUP ON MONTENEGRO WILL BE FEBRUARY 21. DEPUTY PRIME MINISTER DJUROVIC EXPECTS THAT MONTENEGRO WILL JOIN THE WTO BY THE END OF 2007.

SLIGHT INCREASE IN INDUSTRIAL PRODUCTION IN 2006

14. THE OFFICIAL MONTENEGRO STATISTICS BUREAU (MONSTAT) REPORTED A ONE PERCENT INCREASE IN INDUSTRIAL PRODUCTION IN 2006. MINING AND QUARRYING WAS UP 2.9 PERCENT, MANUFACTURING UP JUST 0.1 PERCENT, AND PRODUCTION OF ELECTRICITY, GAS AND WATER SUPPLY UP

3.1 PERCENT. MANUFACTURER OF BASIC METALS (PRIMARILY ALUMINUM AT KAP) WAS UP 4.3 PERCENT.

FOREIGN TRADE DEFICIT UP SHARPLY IN 2006

15. MONSTAT REPORTED MONTENEGRO'S FOREIGN TRADE DEFICIT AT 800 MILLION EUROS IN 2006, UP 65 PERCENT FROM 2005. EXPORTS OF GOODS COVER ONLY 37 PERCENT OF IMPORTS. NOTE: MONTENEGRO HAS A SIGNIFICANT POSITIVE TRADE BALANCE IN SERVICES, DRIVEN BY THE TOURISM SECTOR (325 MILLION EUROS IN 2006), AND EXPERIENCED STRONG FOREIGN DIRECT INVESTMENT AS WELL IN 2006, AT 502 MILLION EUROS. END NOTE.

BUSINESS AND TOURISM:

NIKSIC STEELWORKS NOW OWNED BY MN SPECIALTY STEELS

16. UK-BASED MN SPECIALTY STEELS HAS ACQUIRED THE STEELWORKS IN NIKSIC, PAYING EUROS 5.2 MILLION AND COMMITTING TO INVEST ANOTHER EUROS 14 MILLION THIS YEAR, AND EUROS 117 MILLION IN THE NEXT FIVE YEARS. (REF B) THE INVESTMENTS ARE GUARANTEED BY A BANK DEPOSIT. EMPLOYMENT WILL INITIALLY BE 1,500, RISING TO 1,700 BY 2009. MN SPECIALTY STEELS' MANAGEMENT HAS ANNOUNCED PLANS TO IMPROVE AND EXPAND THE PLANT, TO PRODUCE 500,000 TO 600,000 TONNES OF SPECIALTY STEEL FOR EXPORT ANNUALLY, COMPARED TO ITS CURRENT CAPACITY OF 300,000 TONNES OF ORDINARY STEEL PER YEAR. NOTE: THE NIKSIC STEELWORKS WILL BECOME A MAJOR COMPONENT OF MONTENEGROIN GDP, IF ITS NEW OWNER HOLDS TO ITS ANNOUNCED PLANS. SPECIALTY STEELS SELL FOR ABOUT FIVE TIMES THE PRICE OF ORDINARY STEELS. END NOTE.

SVETI STEFAN RESORT ACQUIRED BY SINGAPORES AMAN

17. AMAN RESORTS, BASED IN SINGAPORE, ON JANUARY 31 SIGNED A 30-YEAR LEASE WITH THE GOVERNMENT FOR SVETI STEFAN, AN ICONIC COASTAL RESORT. ANNUAL LEASE PAYMENTS WILL BE 2.1 MILLION EUROS, AND AMAN WILL INVEST ANOTHER 40 MILLION EUROS IN IMPROVEMENTS. IN THE 2008 SEASON, AN OVERNIGHT STAY WILL BE US\$ 1,000 PER NIGHT.

U.S. FUND SELLS TELEKOM CG SHARES

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18. U.S. INVESTMENT FIRM QVT FINANCIAL HAS SOLD ITS 2.3 PERCENT STAKE IN LOCAL TELECOMMUNICATIONS FIRM TELEKOM CG FOR EUROS 5.5

MILLION, OR A LITTLE MORE THAN TWICE WHAT IT HAD PAID IN 2005.

GLOBAL STEEL HOLDINGS LOOKING AT MONTENEGRO

¶9. PRESIDENT OF INDIA-BASED GLOBAL STEEL HOLDINGS, LAKSHMI MITTAL, VISITED MONTENEGRO JANUARY 24. HE DISCUSSED POSSIBLE INVESTMENTS IN THE ENERGY AND TOURISM SECTORS, AS WELL AS OPERATIONS AT THE PORT OF BAR. THE GOM IS SEEKING TO PRIVATIZE THE PORT OF BAR.

STEADY TOURISM GROWTH EXPECTED

¶10. TOURISM MINISTER NENEZIC HAS PREDICTED AN EIGHT PERCENT INCREASE IN TOURISM INCOME IN 2007, TO EUROS 350 MILLION. THE NUMBER OF TOURISTS IS EXPECTED TO RISE TO 1.1 MILLION. TOURISM INCOME IN 2006 WAS 322.2 MILLION EUROS, WITH 952,000 VISITORS.

PUBLIC ECONOMY:

RESTITUTION BURDEN EXAMINED

¶11. FINANCE MINISTER LUKSIC ESTIMATED THAT THE GOM IS POSSIBLY FACING AN 800 MILLION EURO LIABILITY (MORE THAN THE ANNUAL GOM BUDGET) STEMMING FROM ITS OBLIGATIONS TO PAY ON RESTITUTION BONDS GRANTED TO FORMER LANDOWNERS WHOSE PROPERTY WAS SEIZED AFTER WW2 BY THE TITO GOVERNMENT. THE GOM IS THEREFORE CONSIDERING A CAP OF 20 PERCENT ON THE VALUE OF BONDS PRESENTED TO GOVERNMENT FOR COLLECTION. THAT WOULD REDUCE THEIR LIABILITIES TO A MANAGEABLE 200 MILLION EUROS, AND YET STILL PROVIDE MORE COMPENSATION THAN NEIGHBORING STATES, WHICH CAPPED BONDS AT 10 PERCENT. LUKSIC BELIEVES THAT THE CAP, MOTIVATED BY GOM DISCUSSIONS WITH THE IMF, WILL NOT DISADVANTAGE CLAIMANTS WITH WHOM THE GOM HAS ALREADY SETTLED. (REF A)

UNEMPLOYMENT DOWN

¶12. ACCORDING TO THE OFFICIAL MONTENEGRO STATISTICS BUREAU (MONSTAT), THE UNEMPLOYMENT RATE WAS RELATIVELY STEADY AT 14.63 PERCENT; HOWEVER, THE NUMBER OF UNEMPLOYED DECREASED BY 10,000 TO 38,600.

REAL WAGES ROSE 15 PERCENT IN 2006

¶13. MONSTAT REPORTED THAT THE AVERAGE MONTHLY GROSS WAGE IN 2006 WAS EUROS 377, NET EUROS 250. NOMINAL WAGE GROWTH WAS 15 PERCENT, AND REAL WAGE GROWTH WAS 12 PERCENT, REFLECTING A THREE PERCENT RISE IN THE COST OF LIVING. THE AVERAGE NET WAGE IN DECEMBER WAS EUROS 281. THE FOODBASKET FOR A FAMILY OF FOUR WAS

EUROS 276 IN DECEMBER, UP 1.2 PERCENT FROM NOVEMBER.

INFLATION IN 2006 WAS 2 PERCENT

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¶14. INFLATION WAS 2 PERCENT IN THE BROADER MONTENEGRIN ECONOMY IN 2006, ACCORDING TO MONSTAT.

T-BILLS

¶15. ONE AUCTION OF TREASURY BILLS, WITH A TOTAL FACE VALUE OF EUR 0.5 MILLION, WAS HELD IN DECEMBER (NOTE: DATA LAGS BY ONE MONTH). THE AVERAGE INTEREST RATE AT THE AUCTIONS WAS 0.97, UP FROM 0.42 IN THE PREVIOUS TWO MONTHS. PARTICIPANTS AT THE AUCTIONS INCLUDED LOCAL BANKS.

STOCKS

¶16. THE NEX20 INDEX OF THE NEX MONTENEGRO STOCK EXCHANGE ENDED JANUARY THE YEAR UP 17.6 PERCENT, AT 21,227.46. THE MOSTE INDEX OF MONTENEGROBERZA WAS UP 18.1 PERCENT TO 1072.96. MAJOR COMPONENTS OF THE NEX20 INCLUDE THE PRIVATIZED TELEKOM CG AND JUGOPETROL; MAJOR COMPONENTS OF THE MOSTE INCLUDE ALUMINUM SMELTER KAP AND VINEYARD PLANTAZE. NOTE: THE MONTENEGRIN EXCHANGES ARE STILL NASCENT, AND THE LEVEL OF CAPITALIZATION REPRESENTED IS SMALL ALTHOUGH RISING (NEX CAPITALIZATION AT THE END OF 2004 WAS EUROS 495 MILLION; AT THE END OF SEPTEMBER 2006 2005 IT WAS EUROS 1,087 MILLION. MOSTE CAPITALIZATION WAS JUST UNDER EUROS 2 BILLION AT THE END OF JANUARY 2007).

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